BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 89-594-W/S - ORDER NO. 91-4

JANUARY 4, 1991

IN RE: Application of Blue Ribbon Water Corporation for Approval of New Schedules of Rates and Charges for Water and Sewer Service Provided to its Customers in its Service Area in South Carolina.	))))))	ORDER DENYING RATE INCREASE

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed January 5, 1990, by Blue Ribbon Water Corporation (the Company or Blue Ribbon) whereby the Company seeks approval of a new schedule of rates and charges for water and sewer service provided to its customers in its service area in South Carolina. The Application was filed pursuant to S.C. Code Ann., Section 58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated July 13, 1990, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate), Bruce S. Potts, Glenn B. Rawlinson, Robert C. Gehm, and William S. Potts.

According to Blue Ribbon's Application, the proposed rates and charges would increase water revenue by approximately $79,244 or 50.98%, and sewer revenue by approximately $50,937 or 104.86%. The Company's presently authorized rates and charges were approved by Order No. 89-474 issued on May 9, 1989, in Docket No. 87-479-W/S.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Intervenors likewise conducted their discovery in the rate filing of Blue Ribbon.

A public hearing relative to the matters asserted in the Company's application was commenced in the Offices of the

Commission on November 29, 1990, at 10:30 a.m. in the Commission's Hearing Room. Pursuant to Section 58-3-95, S.C. Code of Laws (Cum. Supp. 1989), a panel of three Commission members composed of Commissioner Bowers, presiding, Chairman Frazier, and Commissioner Yonce, were designated to hear and rule on this matter. Arthur G. Fusco, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; the other Intervenors appeared *pro se*; and Sarena D. Burch, Staff Counsel, represented the Commission Staff.

The Company presented the testimonies of William B. Hopper, President, and Terry Cason Maccubbin, Certified Public Accountant. Each Intervenor testified with the exception of the Consumer Advocate. The Commission Staff presented Vivian B. Dowdy, Public Utilities Accountant, and Raymond C. Sharpe, Public Utilities Rate Analyst, to report Staff's findings and recommendations. The Staff also presented the testimony of Joe Ferris of the Department of Health and Environmental Control (DHEC).

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. That Blue Ribbon Water Corporation is a water and sewer utility providing water and sewer service in its service areas

within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending October 31, 1989.

3. That by its Application, the Company is seeking an increase in its rates and charges for water and sewer service of $130,181.

4. That the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are $204,003 which reflects a $30,685 increase in per book revenues.

5. That the appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are $188,192 which reflects an increase in per book expenses of $5,475.

6. That the Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 15% federal tax rate and a 5.0% state tax rate, respectively.

7. That the Company's level of net operating income for return after accounting and pro forma adjustments, and adjusted for customer growth is $16,106.

8. That the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

9. That a fair operating margin that the Company should have the opportunity to earn is 7.30% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of Company witness Hopper.

On July 6, 1990, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of $164,299. The Company's filing was based on a test period consisting of the 12 months ending October 31, 1989. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984). Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending October 31, 1989, to be the reasonable period for which to make our ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 4

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Hopper and Commission Staff witness Sharpe.

The Staff proposed to adjust book revenues due to the annualization of present rates to reflect the last rate increase that occurred during the test year by $30,685. This adjustment is appropriate for ratemaking purposes as its reflects the proper level of revenues for the Company.

Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments, are $204,003 which reflects a $30,685 increase in revenues.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 5 AND 6

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witness Hopper and Maccubbin for the Company, and witnesses Dowdy and Sharpe for the Commission Staff. This Order will address in detail only those accounting and pro forma adjustments affecting expenses which differed between the Company and the Commission Staff.

ANNUALIZATION OF DEPRECIATION

The Staff proposed to annualize depreciation expense based on year-end plant levels and depreciation rates. The Commission Staff proposed to reduce depreciation expense by $3,689.00.

The Commission finds that the Staff's adjustment to reduce depreciation expense by $3,689.00 properly reflects the depreciation expense based on year-end plant levels, appropriate depreciation rates and appropriate ratemaking principles. Staff's adjustment is adopted for ratemaking purposes herein.

ANNUALIZATION OF SALARIES

The Staff and Company proposed to annualize the salaries of new employees. However, the Company only annualized the salary of one employee even though two new employees had been hired during the test year. The Staff annualized both, therefore, the Commission accepts Staff's adjustment of $38,220. The Staff also proposed to annualize the salary of the Office Manager since although the salary was increased outside the test year, the expenses were known and measurable. The Commission accepts Staff's adjustment of $2,840.

MATERIALS AND SUPPLIES

The Company proposed an adjustment to increase materials and supplies by $5,657. The Staff could not make such an adjustment because the Company provided insufficient substantiation. Because the expenses were not known and measurable, the Commission denies the Company's proposed adjustment.

The Staff proposed to adjust materials and supplies for prior years' expenses and expenses to be capitalized by ($27,630). The Commission finds that these expenses should not be included in test year expenses and approves Staff's adjustments.

MANAGEMENT FEE

The Company was paying Mr. Hopper a management fee of $36,000 per year. This management fee reflects a salary to be paid to Mr. Hopper for the services he renders to the Company. The Commission Staff recommended that the management fee be adjusted to $24,000 which was the amount allowed in the previous rate case. The Commission finds that Staff's adjustment is proper since there was insufficient evidence in the record to justify an increase in the management fee from $24,000 to $36,000.

OPERATOR'S FEE

The Company also proposed an adjustment of $24,000 to reflect an operator's fee to also be paid to Mr. Hopper for his services to the Company. The Staff did not recommend such an adjustment. The Commission finds that the Company's proposed adjustment should be rejected due to the lack of evidence in the record supporting this proposed adjustment and because an adjustment of $24,000 in addition to a management fee of $24,000 appeared to be excessive.

METER READERS

The Staff proposed to adjust expenses to include the salaries of two meter readers employed outside the test year. The Commission finds that the known and measurable expenses are allowable and approves the adjustment.

RATE CASE EXPENSES

The Staff and Company proposed to amortize rate case expenses for actual costs over a three (3) year period. The Staff also adjusted for expenses from the prior rate case in 1989. The Commission finds that Staff's adjustment of ($1,663) is in accordance with regulatory principles and should be approved.

ADJUSTMENT OF DEPRECIATION EXPENSES

The Staff and Company proposed to adjust depreciation expenses for certain additions. However, the Company, in addition to proposing an adjustment for actual expenses, adjusted for proposed expenses as well. The Commission finds that the Staff's adjustment for actual expenses only of $4,562, supported by invoices, is proper and should be approved.

CAR RENTAL

The Staff proposed to disallow the car rental of $1200 from Beas Book Store because the Staff believed that this amount was excessive for ratemaking purposes. The Staff proposed to capitalize the car for the resale value of $900 and depreciate it over a three (3) year period. The Commission finds that the Staff's adjustment is in accordance with regulatory principles and should be approved.

CHEMICAL EXPENSES

The Company and Staff proposed to adjust chemical expenses. Staff included $462 in operating and maintenance expenses based on the invoices representing the known and measurable expenses of the Company for the chemicals. The Company's adjustment of $3600 reflected anticipated expenses. The Commission finds that Staff's adjustment properly reflects the known and measurable expenses of the Company that are allowed for ratemaking purposes.

ENGINEERING EXPENSES

The Company proposed to increase engineering expenses by $4,500. The Staff did not make such an adjustment because the expenses the Company used were proposed expenses not known and measurable for ratemaking purposes. The Commission denies the Company's adjustment because it was not based on actual expenses.

DHEC TESTING

The Staff and Company proposed to adjust expenses for increases in testing and new tests ordered by DHEC. The Staff only allowed expenses that were verified, therefore, the Commission accepts Staff's adjustment of $3,105 supported by invoices.

BOOKKEEPER'S SALARY

The Staff proposed to reduce the bookkeeper's salary of $10,400 by ($2,800) to reflect the bookkeeper's actual time spent at the Company. The Commission approved this adjustment as being in accordance with proper ratemaking procedures.

VEHICLE EXPENSES

The Company proposed to make an adjustment for certain vehicle expenses. The Staff did not make this adjustment because the expenses were not verified. The Commission denies the adjustment because it was not based on known and measurable expenses as required for ratemaking purposes.

INSURANCE

The Company proposed an adjustment for general liability insurance. The Staff did not make this adjustment because the adjustment was not based on actual costs but projected expenses. The Commission finds that the Company's proposed adjustment should be denied since it is not based on known and measurable expenses as required for ratemaking purposes.

The Staff also proposed to adjust insurance for a truck purchased during 1990. The adjustment of $257 was for known and measurable expenses, therefore, the Commission approves the adjustment.

ADVERTISING EXPENSES

The Staff and Company proposed to increase advertising expenses for VOC testing. However, the Staff only allowed expenses supported by invoices while the Company included projected expenses as well. The Commission approves Staff's adjustment of $41 because it is based on known and measurable expenses supported by invoices.

WATER SUPPLIES

An adjustment was proposed by Staff to water supplies expenses of ($793) for non-recurring items that occurred out of the test period. Also, these expenses were not actually for water supplies and therefore should not have been included. The Commission finds that this adjustment is appropriate for ratemaking purposes and should be approved.

CUSTOMER GROWTH

The Staff proposed to record the effects of customer growth using the formula previously approved by this Commission to calculate the customer growth of $295. The Commission finds that this adjustment is appropriate for ratemaking purposes.

MISCELLANEOUS

The Staff proposed to amortize the early retirement of a copier. The Commission finds that this adjustment of $110 is proper and should be approved. The Staff also proposed to reclassify a personal loan because it was improperly included for ratemaking purposes. The Commission finds that this adjustment of ($2,485) is also proper and should be approved. An adjustment was also proposed by Staff to disallow certain expenses that are not generally accepted for regulatory purposes such as flowers, Chamber of Commerce dues, etc. The Commission accepts Staff's adjustment of ($1,572). The Staff proposed to show the tax effect of interest expense and the Commission approves this adjustment of ($233).

The Staff also proposed to remove the salary of an employee no longer with the Company. The Commission approves this adjustment of ($2,431). The Staff recommended an adjustment to expenses for the rental of the office building which had increased during the test year. The Commission approves the adjustment of $2,400.

The Commission will hereby adjust general taxes, and state and federal income taxes to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been reviewed by the Commission and found to be unreasonable or inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NO. 7

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	$204,003
Operating Expenses	188,192
Net Operating Income	15,811
Customer Growth	295
Net Income for Return	$ 16,106

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 8 AND 9

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United State Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann., §58-5-290 (1976), nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water and sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction and book value in excess of investment the utility may request, or the Commission may decide, to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determining by dividing net operating income for return by the total operating revenues of the utility.

In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year:

TABLE C

Operating Revenues	$ 204,003
Operating Expenses	188,192
Net Operating Income (Loss)	$ 15,811
Add: Customer Growth	295
Total Income for Return (Loss)	$ 16,106
Operating Margin (After Interest)	7.30%

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

> ...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.
>
> Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimony of Mr. Hopper who asserted that the Company needs the proposed rate increase in order to continue to provide good service to his customers, to meet new regulatory standards, and to correct a problem in the Foxwood lagoon.

The Staff presented the testimony of Joe Ferris, DHEC District Engineer. Mr. Ferris indicated that aerators are needed for the sewerage lagoon in Foxwood. One or two wells need to be dug in Foxwood and a new well site needs to be located for a well in Willowbrook. The Shandon subdivision sewerage lagoon also needs aeration. The access roads to the wells and well houses are in disrepair and need to be scraped and regraveled. Most of the storage tanks need to be painted, according to Mr. Ferris.

The customers testifying at the night hearing, as well as the Intervenors who also testified during the first hearing, were extremely dissatisfied with the service provided by the Company. Several customers complained about the poor quality of the water. Some customers said that they cannot drink the water and must drink bottled water. Many customers said that they had to replace their hot water heaters or the elements in their hot water heaters regularly. There were numerous complaints about meters being misread. Several customers testified that their rates are too high already and they cannot afford another rate increase. They also asserted that the Company has not made the improvements it promised after the last rate increase it was granted in 1989.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable as producing excessive revenues.

Upon this finding, it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission must also consider the impact of the proposed increase on the Company's ratepayers.

In light of those factors, and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin is 7.30%. The Commission's decision reflects that it has determined that the Company is not entitled to any increase in rates.

The Commission's decision that no increase should be granted to the Company in this proceeding is based upon two reasons: (1) that the operating margin of 7.30% currently being earned by the Company under its present rates after factoring in the Commission Staff's adjustments, fails to prove to this Commission that the Company is in financial need of an increase in its rates. The 7.30% operating margin approved herein, will produce just and reasonable rates. And (2) the service complaints of the customers in this case have convinced the Commission that it would not be appropriate to increase the rates and charges to any customers at this time. It is evident to the Commission that the quality of the Company's service is not adequate.

Based upon the lack of showing financial need and a failure to provide adequate service to its customers, the Commission finds that an increase in rates and charges should not be granted to Blue Ribbon Water Corporation.

The Commission's decision achieves a balance between the interest of the Company and those of its affected customers. This results in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS SO ORDERED:

1. That the proposed schedule of rates and charges filed by the Company is hereby found to be unreasonable and is denied.

2. That the schedules of rates and charges attached hereto as Appendix A, be, and hereby are, approved for service rendered on or after the date of this Order, and that these schedules be, and are hereby, deemed to be filed with the Commission pursuant to S.C. Code Ann.,§58-5-240 (1976).

3. That the Company shall maintain its books and records for its water operations in accordance with the NARUC Uniform Systems of Accounts for Class A and B Water Utilities, as adopted by this Commission.

4. That the Company shall maintain its books and records for its sewerage operations in accordance with the NARUC Uniform Systems of Accounts for Class A and B Sewerage Utilities, as adopted by this Commission.

5. That the Company file an accurate bill frequency distribution analysis for the various classes of customers with any future application for a general rate increase.

6. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)

BLUE RIBBON WATER CORPORATION

Docket No. 89-594-W/S - Order No. 91-4
January 4, 1991
Appendix A

Blue Ribbon Water Corporation rates and charges listed below were approved on May 9, 1989 by Commission Order No. 88-474 in Docket No. 87-479-W/S.

The flat rate for unmetered water customers was approved on on February 8, 1990 by Commission Order No. 90-135 in Docket No. 89-399-W.

Water Charges-

Basic Facilities Charge	-	$ 6.50
Commodity Charge	-	$ 2.50 per 1,000 gals.
Tap Fee	-	$ 300.00
Reconnect Fee	-	$ 35.00
New Customer Turn On Fee	-	$ 25.00
Flat Rate for Unmetered Water Customers	-	$ 23.40

Sewer Charges -

Sewer Facility Fee	-	$ 16.00
Tap Fee	-	$ 300.00
Late Charge Notice Fee	-	$ 2.00